

Message Text

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PAGE 01 STATE 115282
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FM SECSTATE WASHDC

TO WHITE HOUSE IMMEDIATE

C O N F I D E N T I A L STATE 115282

NODIS

WHITE HOUSE FOR BRZEZINSKI

FOLLOWING REPEAT LISBON 4009 SENT ACTION SECSTATE 19 MAY.

QUOTE: C O N F I D E N T I A L LISBON 4009

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DEPT PASS VICE PRESIDENT'S OFFICE, TREASURY FOR SOLOMON

E.O. 11652: GDS

TAGS: EAID ECON PO

SUBJECT: FINANCIAL ASSISTANCE FOR PORTUGAL

REF: LISBON 3890

1. SUMMARY: PER INSTRUCTIONS OF VICE PRESIDENT MONDALE
TREASURY OFFICIAL SYVRUD VISITED PORTUGAL MAY 17-19 TO
DISCUSS PORTUGUESE FINANCING NEEDS. PORTUGUESE FINANCIAL
AUTHORITIES ARE CONCERNED ABOUT FINANCING BALANCE OF PAYMENTS
REQUIREMENTS THROUGH OCTOBER. THEY BELIEVE EXISTING LIQUID
RESERVES AND CREDITS CAN BE STRETCHED THROUGH OCTOBER 1
CONFIDENTIAL

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PAGE 02 STATE 115282

IF THERE ARE NO UNUSUAL DEVELOPMENTS BUT THIS WOULD REDUCE
RESERVES TO LEVEL LEAVING PORTUGAL "WITHOUT ANY MARGIN
OF SAFETY." GIVEN THE UNCERTAINTIES IN THEIR EXCHANGE
MARKETS AND IN THE TIME OF AVAILABILITY OF THE MEDIUM TERM
CREDITS, THEY FEEL THEY MUST SEEK ALTERNATIVE POTENTIAL
FINANCING SOURCES. RECOGNIZING LIMITATIONS OF ESF CREDIT,
THEY ARE PROPOSING FURTHER PL-480 AND CCC CREDITS. WE

STRONGLY RECOMMEND APPROVAL OF ADDITIONAL FY 1977 CCC AND PL-480 CREDITS FOR PORTUGAL. END SUMMARY.

2. PER REFTEL INSTRUCTIONS TREASURY REPRESENTATIVE SYVRUD DISCUSSED PORTUGUESE FINANCING DIFFICULTIES WITH FINANCE MINISTER MEDINA CARREIRA, CENTRAL BANK GOVERNOR SILVA LOPES AND VICE GOVERNOR CONSTANCIO. DURING MEETINGS ON MAY 18 AND 19, GOP OFFICIALS OUTLINED THEIR IMMEDIATE BALANCE OF PAYMENTS REQUIREMENTS AND AVAILABLE RESOURCES AS FOLLOWS:

A. ESTIMATED \$300MILLION IS NEEDED TO COVER EXCHANGE REQUIREMENTS THROUGH OCT 1 (\$60 MILLION PER MONTH). IT COULD BE SLIGHTLY LESS THAN THIS IF TOURISM CONTINUES TO PICK UP.

B. AVAILABLE FOREIGN CURRENCY RESERVES AS OF MAY 11 AMOUNT TO \$90 MILLION AND UNDRAWN CREDITS TO \$278MILLION. GOLD SALES OF \$30 MILLION PER MONTH DURING AUGUST AND SEPTEMBER WOULD PROVIDE ADDITIONAL \$60 MILLION OF POTENTIAL FINANCING. UNDRAWN CREDITS (IN MILLIONS OF DOLLARS) ARE:

-- BIS STANDBY CREDIT	75
-- BANK OF FRANCE GOLD LOAN	15
-- SWISS NATIONAL BANK GOLD LOAN	25
-- ESF SWAP ON BASIS COMPENSATORY FINANCING FACILITY	33
-- W ESF GOLD DEPOSIT CREDITS	80
-- DILLON READ SYNDICATED CREDIT	50

C. NET RESULT OF ABOVE WOULD LEAVE BANK OF PORTUGAL ON OCTOBER 1 WITH ESTIMATED \$128 MILLION IN FOREIGN CURRENCY RESERVES AND UNDRAWN CREDITS.
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PAGE 03 STATE 115282

3. PORTUGUESE AUTHORITIES FEEL VERY UNCOMFORTABLE WITH THIS PROJECTED LEVEL OF RESERVES. THEY HAVE MADE THEIR PROJECTIONS ON WHAT THEY BELIEVE ARE REALISTIC ASSUMPTION BUT THEY RECOGNIZE THAT PROJECTIONS MAY PROVE TO BE OVERLY OPTIMISTIC. UNFORESEEN DISRUPTIONS IN THE EXCHANGE MARKET OR DECLINE IN GOLD PRICE MAY ALTER SITUATION SIGNIFICANTLY. THEY ALSO RECOGNIZE POTENTIAL PROBLEMS WITH THE AMOUNT AND TIMING OF PROPOSED MEDIUM TERM CREDITS. GIVEN THESE UNCERTAINTIES THEY CONSIDER \$200 MILLION RESERVE-CREDIT LEVEL AS MINIMUM MARGIN OF SAFETY.

4. DURING THEIR APRIL 1977 VISIT TO WASHINGTON, SILVA LOPES AND CONSTANCIO DISCUSSED THEIR POTENTIAL FINANCING DIFFICULTIES WITH UNDER SECRETARY SOLOMON. THEY ACKNOWLEDGED DIFFICULTIES WITH EXTENDING THE ESF LINE OF CREDIT, OUTLINED BY SOLOMON. ON THEIR RETURN TO LISBON THEY EXPLORED WITH PORTUGUESE MINISTRIES OF AGRICULTURE AND TRADE POSSIBILITIES FOR FURTHER PL-480 AND CCC CREDITS. UNFORTUNATELY THEY

HAD NOT COMPLETED THEIR RECOMMENDATIONS ON THIS APPROACH PRIOR TO VICE PRESIDENT MONDALE'S VISIT TO LISBON. SILVA LOPES AND CONSTANCIO, AS IS KNOWN WERE IN PARIS AT THE TIME. THE GOVERNMENT OF PORTUGAL HAS NOW PREPARED A REQUEST FOR ADDITIONAL CCC CREDITS FOR CORN, SORGHUM, WHEAT, SUNFLOWER, SOYA AND PL-480 CREDIT FOR COTTON TO BE SUBMITTED TO THE EMBASSY ON MAY 20.

5. WE BELIEVE THAT ADDITIONAL CCC AND PL-480 CREDITS FOR PORTUGAL IN FY 1977 IS A SUITABLE MEANS TO ASSIST PORTUGAL MEET ITS FINANCING REQUIREMENTS, AND WOULD BE CONSISTENT WITH VICE PRESIDENT MONDALE'S PROMISE TO PRIME MINISTER SOARES TO EXPLORE POSSIBILITIES OF AN EXTENSION OF SHORT-TERM CREDITS. CCC CREDITS ARE CLEARLY MORE SUITABLE FOR PORTUGAL'S REQUIREMENTS THAN EXTENSION OF THE ESF LINE OF CREDIT. WE STRONGLY RECOMMEND THAT DEPT OF AGRICULTURE AUTHORIZE GOP CREDIT REQUEST, WHICH WILL BE SUBMITTED BY CONFIDENTIAL

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PAGE 04 STATE 115282

SEPTTEL, SO WE CAN RESPOND TO THE GOP ON BEHALF OF THE VICE PRESIDENT. CARLUCCI
UNQUOTE CHRISTOPHER

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Message Attributes

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